

Message Text

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ACTION EB-08

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AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 2903

EO 11652 NA
TAGS EAGR ETRD BR
SUBJECT: BRAZIL'S COFFEE POLICY: THE DILEMMA CONTINUES

REFS: A. RIO DE JANEIRO 1537 (NOTAL), B. SAN SALVADOR 1261

1. SUMMARY. BRAZIL'S CURRENT COFFEE EXPORT POLICY HAS THE INTENTION OF RESTRICTING BRAZIL'S EXPORTS IN ORDER TO PUT UPWARD PRESSURE ON WORLD COFFEE PRICES AND BUILD UP STOCKS TO TAKE ADVANTAGE OF ANY FROST DAMAGE IN BRAZIL THIS YEAR. THIS POLICY IS UNDER INCREASING ATTACK FROM THE DOMESTIC COFFEE SECTOR, AND FROM OTHER GOB POLICY-MAKERS, WHO ARE CONCERNED THAT BRAZIL'S BALANCE OF PAYMENTS PERFORMANCE WILL SUFFER IF COFFEE EXPORTS DO NOT PICK UP SOON. THESE PRESSURES MAY RESULT IN AN IBC POLICY CHANGE. END SUMMARY.

2. THE BRAZILIAN COFFEE INSTITUTE'S (IBC) RECENT CHANGES IN THE MINIMUM REGISTRATION PRICE AND EXPORT

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TAX (CONFISCO CAMBIAL)
(REF A) FOR COFFEE EXPORTS APPEAR TO US TO HAVE BEEN PROMPTED BY THE NEED TO INCREASE COFFEE EXPORTS FOR BALANCE OF PAYMENTS REASONS, AND BY INCREASING PRESSURE FROM DOMESTIC COFFEE GROWERS AND TRADERS FOR HIGHER EXPORT VOLUME. WHETHER THESE PRICE CHANGES WILL IN FACT HAVE THE DESIRED EFFECT ON EXPORTS REMAINS IN OUR VIEW DOUBTFUL. THE DECREASE IN THE MINIMUM REGISTRATION PRICE TO US\$1.70/LB.

IS UNLIKELY TO HAVE THE DESIRED BALANCE OF PAYMENTS EFFECT BECAUSE ANY ATTEMPT BY BRAZIL TO INCREASE COFFEE EXPORTS SIGNIFICANTLY WITHOUT AT THE SAME TIME PRECIPITATING A FURTHER PRICE DROP WILL BE VERY DIFFICULT UNDER CURRENT MARKET CONDITIONS.

3. MARCH COFFEE SALES, ACCORDING TO IBC SOURCES, WERE JUST UNDER ONE MILLION BAGS. THIS IS THE BEST MONTHLY SALES FIGURE SO FAR THIS YEAR, ALTHOUGHLESS THAN AVERAGE IN HISTORICAL TERMS). FURTHERMORE IN THE FIRST QUARTER OF THE YEAR BRAZIL HAS SOLD ONLY TWO-THIRDS AS MUCH COFFEE AS THE IBC'S ONE MILLION BAGS PER MONTH TARGET CALLED FOR. EVEN MARCH'S RELATIVELY GOOD PERFORMANCE CAN BE EXPLAINED IN PART BY THE EXPORT EMBARGO IMPOSED BY CENTRAL AMERICAN PRODUCERS (REF B): BRAZIL SOLD 500,000 BAGS IN THE WEEK FOLLOWING THE EMBAROO ANNOUNCEMENT. (BRAZIL ALSO HAD A SPECIAL DISCOUNT SCHEME IN OPERATION DURING MARCH.)

4. THE IBC'S STRATEGY APPEARS TO BE ONE OF ATTEMPTING TO MINIMIZE THE EFFECT OF BRAZIL'S COFFEE SALES ON WORTD PRICES BY TRYING TO OBSCURE NET SALES PRICES AND BY CONFUSING THE WORTD MARKET. THE EFFECT OF THIS POLICY, HOWEVER, HAS BEEN, FIRST, TO KEEP PRICES HIGHER FOR OTHER COFFEE EXPORTERS WITH LITTLE OR NO APPARENT BENEFIT ACCRUING TO BRAZIL, AND, SECOND, TO LOWER EVEN FURTHER BRAZIL'S CREDIBILITY IN THE MARKET. EACH TIME BRAZIL HAS ATTEMPTED TO TAKE ADVANTAGE OF A RELATIVE FIRMING IN THE MARKET, ITS ENTRY INTO THE MARKET HAS CAUSED PRICES TO FALL.

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5. WE DETECT THAT THE IBC WOULD PREFER TO CONTINUE ITS POLICY OF SETTING THE MINIMUM EXPORT PRICES ABOVE THE MARKET PRICE WHILE OFFERING DISCOUNTS/REBATES TO BUYERS. THIS BRAZIL WOULD CONTINUE TO SELL COFFEE BUT IN SMALLER THAN NORMAL QUANTITIES AT LTEAST UNTIL THE NEXT FROST SEASON (MAY-AUGUST) FURTHER DEFINES THE NATURE OF THE COFFEE MARKET FOR THE NEXT YEAR OR SO. THE ADVANTAGE OF THIS POLICY TO BRAZIL IS THAT BY LIMITING EXPORTS AND BUILDING UP STOCKS IN BRAZIL (PRIVATE STOCKS ARE CURRENTLY ESTIMATED BY FAS AT ABOUT 15 MILLION BAGS), BRAZIL WOULD BE IN AN EXCELLENT POSITION TO TAKE ADVANTAGE OF ANY PRICE INCREASES CAUSED BY A FREEZE IN BRAZIL. HOWEVER, PRESSURES CONTINUE TO MOUNT AGAINST THE IBC, BOTH FROM WITHIN THE GOB TO PUSH COFFEE EXPORTS HARDER

IN ORDER TO PRODUCE BALANCE OF PAYMENTS BENEFITS, AND FROM DOMESTIC COFFEE GROWERS AND EXPORTERS WHO HAVE SEEN THEIR BUSINESSES DECLINE AND STAGNATE OVER THE LAST 10 MONTHS OR SO. THE IBC HAS SHOWN THAT IT CAN WITHSTAND CONSIDERABLE PRIVATE SECTOR PRESSURE, BUT THE OVERALL GOB DESIRE FOR FOREIGN EXCHANGE EARNINGS MAY YET CAUSE THE IBC TO ALTER ITS POLICY.

6. THIS MESSAGE PREPARED JOINTLY BY AMCONSUL RIO AND EMBASSY.

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